

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Darrel L. Peterson
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Dee Knaak
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Chair
Commissioner
Commissioner
Commissioner

In the Matter of a Petition from
Northern States Power Company
for a Variance to the Purchase
Gas Charges, Automatic
Adjustment Rule for Recovery of
Carrying Costs Associated with
Gas Storage Service

ISSUE DATE: December 10, 1991

DOCKET NO. G-002/M-90-630

ORDER EXTENDING VARIANCE AND
SETTING FILING REQUIREMENTS

PROCEDURAL HISTORY

On April 4, 1991, the Commission issued its ORDER GRANTING VARIANCE FOR ONE YEAR in the present docket. In that Order, the Commission granted Northern States Power Company (NSP or the Company) a one-year variance from Minn. Rules, part 7825.2700, the Purchase Gas Charges, Automatic Adjustment rule. The variance allowed NSP to include carrying charges on gas storage inventory volumes as a cost in the Company's purchase gas adjustment (PGA).

On June 12, 1991, the Commission granted a similar one-year variance to Great Plains Natural Gas Company (Great Plains).¹ During a May 21, 1991 meeting held to deliberate the granting of this variance, the Commission posed questions regarding the necessity of future rule variances to allow carrying cost recovery. The Commission asked its staff and the Department of Public Service (the Department) to submit recommendations regarding procedures for recovery of gas storage carrying costs.

On July 15, 1991, the Department submitted its report. The Department recommended that the Commission amend its Orders granting NSP and Great Plains variances. The Department stated that gas carrying costs are allowed in the PGA without a variance under Minn. Rules, part 7825.2700, subp. 4 and Minn. Rules, part 7825.2400, subp. 12. The Department asserted that these rules, when read together, allow gas carrying costs to flow through the PGA because such costs are the "normal and ordinary cost of injection and withdrawal of gas from storage at the time of withdrawal."

¹ In the Matter of Great Plains Natural Gas Company's Petition to Recover the Costs Associated with Storage Service through Its Purchased Gas Adjustment, Docket No. G-004/M-91-142, ORDER GRANTING VARIANCE FOR ONE YEAR (June 12, 1991).

The Department further recommended that the Commission establish certain filing requirements regarding gas storage. These requirements would be included in NSP's monthly PGA reports.

On November 5, 1991, the Commission met to consider the procedure for recovery of gas storage carrying costs and the Department's recommended filing requirements.

FINDINGS AND CONCLUSIONS

Background

The Commission has previously found that gas contract storage service (FDD) can be of benefit to Minnesota consumers. As the Commission stated in its June 12, 1991 Order in the Great Plains Docket:

FDD can increase flexibility and reliability of supply, since the LDCs [local distributing companies] can shop a variety of suppliers over a large portion of the year. Prices of FDD can be more favorable and less subject to weather-driven swings than prices of other types of gas supply.

In its June 12, 1991 Order, the Commission also discussed allowing recovery of carrying costs associated with FDD:

Because the Commission has found that the judicious use of FDD supply can be of benefit to Minnesota ratepayers, the Commission will as a matter of policy encourage well-designed gas purchase programs... Allowing LDCs to recover carrying charges associated with the use of contract storage service would be part of such a plan. If LDCs were not allowed to recover their carrying costs, they would be penalized for their choice of this means of supply.

In its April 4, 1991 Order in the current docket, the Commission found that a variance from Minn. Rules, part 7825.2700 was necessary to allow LDCs to recover their carrying costs. The Commission also found that allowing these costs would fulfill the requirements for a variance found in Minn. Rules, part 7830.4400:

1. Enforcement of the rule would impose an excessive burden upon the applicant or others affected by the rule.

The Commission found that enforcement of the rule would force the Company to absorb approximately \$170,000 in carrying charges. This would be an excessive burden in light of the fact that the Company's use of FDD would provide ratepayers savings of approximately \$600,000.

2. Granting of the variance would not adversely affect the public interest.

The Commission found that ratepayers would in fact be benefitted by lower rates reflecting the utility's savings.

3. Granting of the variance would not conflict with the standards imposed by law.

The Commission found that recovery of FDD carrying costs is possible under Minn. Stat. § 216B.16, subd. 7, which lists direct costs of natural gas as one of the three types of costs for which the Commission may allow automatic adjustment charges.

Commission analysis

Having reviewed the relevant PGA statute and rules, the Commission again finds that it will require an LDC seeking recovery of FDD carrying costs to seek such recovery through a variance from PGA rules. Gas storage carrying costs are not mentioned specifically under Minn. Rules, parts 7825.2400 or 7825.2700 as allowable charges which may be recovered through the PGA. The variance process also affords the Commission an opportunity to review proposed carrying costs in a more complete manner than is possible in a PGA filing.

The Commission recognizes, however, that FDD and its associated carrying costs are part of a rapidly developing area of utility regulation. In a fairly short time, FDD has moved from a new offering towards an important position in most LDCs' gas supply portfolios. The Commission recognizes that its treatment of gas storage carrying costs may develop and evolve along with this utility offering.

NSP's recovery of gas storage carrying charges will be reviewed in the Company's next rate case. In the rate case proceeding the Commission will be able to review the Company's use of gas storage in the context of overall Company test year expenses and revenues. The Company's use of capital to provide storage will be examined as part of working capital rate case issues.

The Commission may find after its first rate case examination of gas storage carrying costs that such costs are best examined on an annualized test year basis rather than through PGA filings. The Commission may come to view recovery of FDD carrying costs as a form of return on capital invested in storage. If this is the case, the Commission may then require that future recovery of FDD costs be sought in rate case proceedings.

The Commission will extend the Company's variance granted in the April 4, 1991 Order until such time as the issues of FDD storage cost recovery have been fully examined in the Company's next rate case proceeding. When these issues have been resolved in the rate case and all administrative review has been exhausted, the

variance granted on April 4, 1991 will expire. At that time, the Company will be free to apply for another variance to allow PGA recovery. The Company will by that time be fully informed of the Commission's treatment of FDD costs in the rate case and may no longer wish to pursue a variance. If the Commission has determined that rate case examination of these charges is necessary, a variance may no longer fulfill the requirements of Minn. Rules, part 7830.4400. A variance allowing PGA recovery may no longer be deemed in the public interest under Minn. Rules, part 7830.4400 (C) if the Commission has determined that full rate case oversight and review is necessary.

Filing requirements

In its July 15, 1991 report, the Department recommended that gas utilities be required to file the following information regarding FDD in their monthly PGA reports:

1. A log of gas injections into storage, including date, cost and amount in Mcf;
2. The payment date for the stored gas; and
3. A calculation of carrying charges at the prime rate.

The Commission finds that these filing requirements are an appropriate means of monitoring the use of FDD by NSP. The Commission recommends that the Department request NSP to provide this information on a monthly basis, starting with the next possible monthly PGA filing.

ORDER

1. The Commission extends the variance granted NSP in the Commission's April 4, 1991 Order so that the variance is in effect from the original filing date for the variance, August 28, 1990, until such time as issues regarding gas storage carrying costs have been fully resolved in the Company's next rate case proceeding and all administrative review of such issues has been exhausted.
2. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Richard R. Lancaster
Executive Secretary

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